

# ALABAMA PUBLIC SCHOOL AND COLLEGE AUTHORITY

August 11, 2010

Re: Financing Proposals Requested For Qualified School Construction Bond Program

Alabama Public School and College Authority (the “Authority”) is pleased to present this request for proposals to provide financing for its Qualified School Construction Bond Program. The Authority expects to borrow \$154,727,000 through one or more direct loans (the “Loans”) from financial institutions (“Lenders”). Proceeds of the Loans will be used by the Authority to make loans to local Alabama school boards. The Authority’s obligation to repay each Loan will be evidenced by its 2010 Capital Improvement Pool QSCB Direct Loan Bond (collectively, the “Bonds”) issued by the Authority and payable from the limited sources described herein. The Bonds will be “qualified school construction bonds” under the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Loans and the Bonds will be taxable, meaning the interest will be included in gross income of the Lenders.

This letter provides an overview of the Authority and its financing programs, a description of the plan of financing for the Bonds, a description of desired borrowing terms, and the procedures to be followed in the submission of proposals and the selection of Lenders, and is organized as follows:

- A. Overview of Authority Financing Programs.....page 1
- B. The Plan of Financing for the Bonds and Borrowing Terms .....page 16
- C. Procedures for Consideration and Acceptance of Proposals.....page 18
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  - Exhibit B - Form of Financing Agreement

In April 2010 the Authority issued its Series 2010-A Bonds and its Series 2010-B Bonds in a public offering. An Official Statement dated April 14, 2010 (the “2010 Bond Official Statement”) was prepared in connection with the public offering of those bonds. In this request for proposals references are made to the information included in the 2010 Bond Official Statement, a copy of which can be downloaded from the website described in Section C of this request for proposals. The Bonds are being issued to evidence direct loans made by financial institutions to the Authority. No official statement is being prepared in connection with this request for proposals, the Loans or the Bonds.

## **A. OVERVIEW OF AUTHORITY FINANCING PROGRAMS**

### **General**

The discussion under this heading does not pertain specifically to the Loans and Bonds, but rather is intended to provide information relevant to all outstanding bonds of the Authority. A careful reading of the information contained under this heading will facilitate an understanding of the information with respect to the Bonds presented later.

In 1959, the Legislature determined that additional funds were needed to fund construction of capital improvements to public schools and institutions of higher education in the State and determined that it was necessary to create a new financing mechanism to provide state-wide assistance to schools and institutions for educational purposes. The Legislature authorized the creation of the Alabama Education Authority as a public corporation with the power to issue bonds to provide funds to school boards and institutions of higher education for capital improvements. With court approval, bonds were issued for those purposes.

In 1965, the State determined that a new public corporation should be created with expanded powers and revenues to meet the increasing needs of public schools and institutions of higher education for capital improvement funds. The Alabama Public School and College Authority was created, the directors being the Governor, the State Superintendent of Education and the State Director of Finance.

### **Education Trust Fund**

The State has maintained since at least 1959 a special fund generally referred to as the Education Trust Fund in order to segregate and account for taxes and revenues earmarked and designated for educational purposes. The Education Trust Fund is the largest operating fund of the State into which taxes and revenues of the State are deposited. Amounts deposited to the Education Trust Fund are used for the support, maintenance and development of public education in Alabama, debt service and capital improvements relating to educational facilities, and other functions related to educating the state's citizens. Programs and agencies supported by the Education Trust Fund include K-12 education, public library services, performing and fine arts, the State's education regulatory departments, and two and four-year colleges and universities. Funding from the Education Trust Fund is also provided to non-state agencies that provide educational services to the people of Alabama, including the arts, disease counseling and education, and youth development. Ten tax sources are allocated to the Education Trust Fund, the largest of which are the individual and corporate income taxes, sales taxes, utility taxes and use taxes.

On December 15, 2008, the Governor declared proration of 12.5% in the Education Trust Fund for the 2009 fiscal year. Withdrawals from the Education Trust Fund Rainy Day Account for fiscal year 2009 were limited to \$437,390,828. The Governor withdrew approximately one-half of the amount available for withdrawal (\$221,136,679) immediately after declaration of proration, and the remaining amount later on during the 2009 fiscal year. On September 29, 2009, the Governor declared proration of 7.5% in the Education Trust Fund for the 2010 fiscal year. For additional information, see the 2010 Bond Official Statement (Appendix A -- "INFORMATION ABOUT THE STATE OF ALABAMA -- RECEIPTS, DISBURSEMENTS, TAXES AND REVENUES—State Taxes and Other Major Sources of Revenues and Income").

### **Outstanding Bonds**

***Source of Payment and Lien Position.*** The outstanding bonds previously issued by the Authority and the Bonds are not general obligations of the Authority, nor are they obligations of the State or any political subdivision thereof. Such bonds are payable solely from, and are secured by, an irrevocable pledge of the revenues from certain taxes. There are some differences in the sources of payment among the several outstanding series of bonds of the Authority. The Bonds are payable solely out of the net proceeds from the Pledged Taxes (defined below).

The bonds issued by the Authority are not issued as parity bonds but rather occupy a lien position as to taxes and revenues pledged for payment of all bonds of the Authority in the order in which the bonds are issued. For example, bonds issued by the Authority for the purpose of refunding previously issued bonds occupy a lien position reflecting the date of the refunding issue.

***Categories of Bonds.*** The Authority is, under present law, authorized to issue two types of bonds:

***Capital Outlay Bonds.*** The type of bonds most frequently issued by the Authority are for capital improvements to public schools and institutions of higher education. Those bonds ("Capital Outlay Bonds") are authorized to be issued from time to time pursuant to authority granted to the Authority by separate acts of the Legislature of Alabama for designated recipients

and designated amounts specified in the acts under which the bonds are authorized to be issued. The proceeds of Capital Outlay Bonds constitute grants to the recipients.

See Table 1 below for a description of Capital Outlay Bonds that will be outstanding when the Bonds are issued.

***School Board Loan Bonds.*** Pursuant to Act No. 98-373 enacted at the 1998 Regular Session of the Legislature of Alabama (the “1998 Act”), the Authority was authorized to issue bonds (“School Board Loan Bonds”) without express limit as to principal amount to finance loans to local boards of education in the State. Prior to the enactment of the 1998 Act, local boards of education could not leverage capital funds from the State. This program was intended to allow boards of education to finance larger capital projects up-front rather than pay for capital improvements on a pay-as-you-go basis. School Board Loan Bonds are secured by the same taxes pledged for Capital Outlay Bonds, and it was anticipated lower borrowing costs to the local boards of education would result from having the funds provided by the Authority in lieu of local financing. Under the provisions of Act No. 2009-813 enacted at the 2009 Special Session of the Legislature of Alabama, the Authority is authorized to issue School Board Loan Bonds in the form of “qualified school construction bonds” under the terms of the American Recovery and Reinvestment Act of 2009, P.L. 111-5. The Bonds are being issued under the School Board Loan Bond program.

Each local board of education receiving a loan from proceeds of School Board Loan Bonds is required to issue its warrant to the Authority at an interest rate agreed to by the Authority and the local board of education and approved by the State Superintendent of Education. The warrants issued to the Authority by the local boards of education are not general obligations of the local boards of education but are payable solely from the distributions of Capital Outlay Funds made to such local boards of education from the Public School Fund pursuant to Section 16-13-234, Code of Alabama 1975, from other funds available to such boards of education, or some combination thereof. Each board of education is required to pay its pro rata share of the issuance expenses incurred in connection with the issuance by the Authority of School Board Loan Bonds. The amounts received by the Authority from repayment of loans made with proceeds of School Board Loan Bonds are not pledged to the payment of the School Board Loan Bonds, although the Authority expects that the loan payments received from the participating local boards of education will be approximately equal to and will be used to pay debt service on the School Board Loan Bonds issued to fund such loans.

The School Board Loan Bonds are payable solely out of the revenues from the Pledged Taxes. While the revenues from Pledged Taxes pledged to Capital Outlay Bonds are likewise pledged to the School Board Loan Bonds, the Authority has not paid any debt service on the School Board Loan Bonds from Pledged Tax revenues since the inception of the program to the present. Instead, debt service on the School Board Loan Bonds has been paid from amounts received by the Authority from repayment of loans made to participating local boards of education.

See Table 1 below for a description of School Board Loan Bonds that will be outstanding when the Bonds are issued.

### **Bonds Statutorily Authorized But Not Issued**

Following the making of the Loans and the issuance of the Bonds there will be no bonds statutorily authorized but not issued by the Authority, other than School Board Loan Bonds which, as

stated above, are authorized to be issued without express limit as to principal amount, and bonds issued to refund previously issued bonds.

### **Sources of Payment of Authority's Bonds**

**Pledged Taxes.** Bonds issued by the Authority do not constitute obligations of the State or any political subdivision thereof, and the full faith and credit of the State are not pledged for payment of the principal thereof or the interest thereon. The Authority's bonds are not general obligations of the Authority, nor does the Authority have any taxing power. The principal of and interest on the Authority's bonds are payable solely from, and are secured by an irrevocable pledge of, the following revenues, subject to the prior pledges thereof described below and in the order of priorities described below:

(a) **Utility Gross Receipts Tax.** All of that portion of the receipts from the Utility Gross Receipts Tax which are required to be deposited into the State Treasury to the credit of the Education Trust Fund;

(b) **Utility Service Use Tax.** All of that portion of the receipts from the Utility Service Use Tax which are required to be deposited into the State Treasury to the credit of the Education Trust Fund;

(c) **Sales Tax.** All of that portion of the receipts from the Sales Tax which are required to be paid into the State Treasury to the credit of the Education Trust Fund; and

(d) **Use Tax.** All of that portion of the receipts from the Use Tax which are required to be paid into the State Treasury to the credit of the Education Trust Fund.

The Utility Gross Receipts Tax, the Utility Service Use Tax, the Sales Tax and the Use Tax are hereinafter collectively referred to as the "Pledged Taxes" and the portions of the revenues thereof described in paragraphs (a) through (d) above as being deposited into the State Treasury to the credit of the Education Trust Fund and pledged as security for the Authority's bonds are hereinafter referred to as the "Pledged Revenues." So much of the Pledged Revenues as may be necessary for such purpose is appropriated to provide for the payment of the principal of and interest on the Authority's bonds, in the following order of priorities:

(i) The Pledged Revenues derived from the levy of the Utility Gross Receipts Tax and the Utility Service Use Tax after deducting therefrom amounts necessary to pay at their respective maturities the principal of and interest on certain outstanding bonds of the Authority that are secured by prior pledges thereof;

(ii) To the extent that the Pledged Revenues described in the preceding subparagraph (i) are insufficient therefor, the Pledged Revenues derived from the levy of the Sales Tax, after deducting therefrom amounts necessary to pay at their respective maturities the principal of and interest on certain outstanding bonds of the Authority that are secured by prior pledges thereof; and

(iii) To the extent that the Pledged Revenues described in the preceding subparagraphs (i) and (ii) are insufficient therefor, the Pledged Revenues derived from the levy of the Use Tax, after deducting therefrom amounts necessary to pay at their respective maturities the principal of and interest on certain outstanding bonds of the Authority that are secured by prior pledges thereof.

The resolution of the Authority authorizing the issuance of the Bonds (the “Resolution”) and related Financing Agreements (described below) irrevocably pledge for payment of the principal of and interest on the Loans and Bonds so much of the Pledged Revenues as may be necessary for that purpose. The pledge so made is for the benefit of all Loans and Bonds, without preference of one over another.

The Resolution and the related Financing Agreements further provide that the lien on the Pledged Revenues securing the Bonds may be defeased upon the deposit with the State Treasurer of moneys or Government Securities (as defined in the Resolution), the principal of and interest on which will provide funds sufficient to pay when due the principal of, premium, if any, and interest due and to become due on the Bonds.

**Additional Debt.** The Resolution and the acts of the Alabama Legislature applicable to the Authority effectively provide that any pledge of the Pledged Revenues for the payment of the principal of and interest due on any bonds, including refunding bonds, issued by the Authority subsequent to the issuance of the Bonds will be subject and subordinate to the pledge of the Pledged Revenues made by the Authority for the benefit of the Bonds. The Authority may issue obligations from time to time, without limit as to amount, for any purposes for which the Authority may be authorized by the State Legislature to incur indebtedness. Such obligations may be secured by a lien on the Pledged Revenues, subject and subordinate to the lien securing the Bonds. The Authority anticipates that it will issue additional subordinated bonds in an undetermined amount from time to time in future years as and when authorized by the State Legislature.

**Certain Sources of Payment Subject to Prior Pledges.** The Education Trust Fund is a special fund that serves as a depository for revenues traditionally used for educational purposes. The Education Trust Fund was established in 1927 by act of the Legislature of Alabama. In addition to the portions of the Pledged Revenues previously referred to as being payable into the Education Trust Fund, all or part of the proceeds of numerous other taxes are required by law to be paid into the Education Trust Fund. The Bonds are not, however, payable from, or secured by the pledge of, any moneys payable into the Education Trust Fund other than the Pledged Revenues. The amount of taxes paid into the Education Trust Fund each year in excess of the sums needed to meet the debt service requirements of the Authority’s bonded indebtedness does not constitute a sinking fund for the payment of principal of and interest on the outstanding bonded indebtedness of the Authority. Any such excess is customarily appropriated and expended for educational purposes generally.

The appropriation and pledge of the Pledged Revenues as security for the Bonds are subject to prior appropriations and pledges made for the benefit of previously issued bonds of the Authority (the “Prior Lien Bonds”). Those of the Prior Lien Bonds issued prior to January 1, 2001, are additionally secured by a pledge of that portion of the receipts from the lease tax (the “Lease Tax”) levied by Article 4 in Chapter 12 of Title 40 of the Code of Alabama 1975, which was formerly required to be deposited into the State Treasury to the credit of the Education Trust Fund. Pursuant to Act No. 99-650, enacted at the 1999 First Special Session of the Alabama Legislature, the Lease Tax revenues are required to be credited, instead, to the General Fund, effective January 1, 2001.

The following table contains all Prior Lien Bonds that will be outstanding when the Bonds are issued and the financing plan is implemented:

**Table 1**

**Prior Lien Bonds**

<b>Bond Series</b>	<b>School Board Loan Bonds <sup>(1)</sup></b>	<b>Capital Outlay Bonds <sup>(2)</sup></b>	<b>Total</b>	<b>Final Maturity</b>	<b>Lien Position</b>
Capital Improvement Pool Bonds, Series 2001-A	\$34,095,000		\$ 34,095,000	2021	1
Capital Improvement Pool Bonds, Series 2002-A	75,285,000		75,285,000	2022	2
Economic Development and Training Bonds, Series 2002-B		\$ 26,800,000	26,800,000	2028	3
Capital Improvement and Economic Development and Training Bonds, Series 2003	32,660,035	64,449,965	97,110,000	2023	4
Capital Improvement Pool Bonds, Series 2005	69,690,000		69,690,000	2025	5
Capital Improvement Bonds, Series 2006	46,360,000		46,360,000	2026	6
Capital Improvement Bonds, Series 2007		1,003,595,000	1,003,595,000	2027	7
Capital Improvement Bonds, Series 2008-A	45,980,000		45,980,000	2028	8
Capital Improvement Refunding Bonds, Series 2009-A		422,605,000	422,605,000	2024	9
Capital Improvement Pool Refunding Bonds, Series 2009-B	159,040,000		159,040,000	2019	9
Capital Improvement Pool Bonds, Series 2009-C	35,705,000		35,705,000	2029	9
Capital Improvement Pool Qualified School Construction Bonds, Series 2009-D (Tax Credit Bonds)	145,880,000		145,880,000	2025	10
Capital Improvement Refunding Bonds, Series 2010-A		109,775,000	109,775,000	2019	11
Capital Improvement Refunding Bonds, Series 2010-B		70,980,000	70,980,000	2014	11
<b>Total</b>	<b>\$644,695,035</b>	<b>\$1,698,204,965</b>	<b>\$2,342,900,000</b>		

Note (1) School Board Loan Bonds are expected to be paid from repayment of loans made to participating local boards of education; however, these bonds are secured by the Pledged Revenues.

Note (2) Capital Outlay Bonds are expected to be paid with Pledged Revenues.

The proceeds of the Authority's outstanding School Board Loan Bonds were loaned to local boards of education to finance capital improvements benefiting such local boards of education. The anticipated source of payment for the outstanding School Board Loan Bonds is the repayment of the principal of and interest on amounts so loaned with moneys derived from the allocable shares of such

participating local boards of education in Capital Outlay Funds to be distributed each year from the State of Alabama Public School Fund pursuant to Section 16-13-234, Code of Alabama 1975, from other funds available to such boards of education, or some combination thereof, although such allocable shares and funds are not specifically pledged for such purposes, and the holders of said bonds have no recourse against such shares and funds. Similarly, proceeds of the Bonds will be loaned to local boards of education, and the source of payment by those school boards will be the same, but the payments by the local boards of education will not be pledged to the Lenders, and the Lenders will not have recourse against the payments by the local school boards or the expected source of those payments.

When issued, the Bonds will occupy a 12<sup>th</sup> lien position respecting the Pledged Revenues. The actual debt service on the Prior Lien Bonds for each fiscal year is shown in Table 3 below.

The following table sets out the total principal amount of the Authority's bonded indebtedness outstanding as of the end of each of the fiscal years indicated.

**Table 2**

**Total Outstanding Prior Principal Indebtedness  
Payable Out of Pledged Revenues**

<b>Fiscal Year Ended September 30</b>	<b>Outstanding Principal Indebtedness</b>
2004	\$1,487,305,000
2005	1,499,645,000
2006	1,442,970,000
2007	1,355,205,000
2008	2,326,970,000
2009 <sup>(1)</sup>	2,253,340,000

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Source: State of Alabama Comprehensive Annual Financial Reports and State of Alabama Department of Finance.

Note (1) Does not include the Series 2009-A Bonds, Series 2009-B Bonds, Series 2009-C Bonds, Series 2009-D Bonds, Series 2010-A Bonds and Series 2010-B Bonds which were issued after the end of fiscal year 2009.

After the end of fiscal year 2009, the Authority issued its Series 2009-A Bonds, Series 2009-B Bonds, Series 2009-C Bonds, Series 2009-D Bonds, Series 2010-A Bonds and Series 2010-B Bonds. After giving effect to the Bonds, and taking into account Prior Lien Bonds issued after fiscal year 2009, the Authority's outstanding principal indebtedness will be \$2,497,627,000. Of this amount, \$799,422,035 will be School Board Loan Bonds and \$1,698,204,965 will be Capital Outlay Bonds.

**Debt Service on Prior Lien Bonds.** The following table reflects the debt service requirements on the Prior Lien Bonds that will be outstanding after the Bonds are issued.

**Table 3**  
**Debt Service Requirements on Prior Lien Bonds**  
(in thousands)

<b>Fiscal Year Ending September 30</b>	<b>Series 2001-A Bonds</b>	<b>Series 2002 Bonds <sup>(1)</sup></b>	<b>Series 2003 Bonds</b>	<b>Series 2005 Bonds</b>	<b>Series 2006 Bonds</b>	<b>Series 2007 Bonds</b>	<b>Series 2008-A Bonds</b>	<b>Series 2009 Bonds <sup>(2)</sup></b>	<b>Series 2010 Bonds <sup>(3)</sup></b>	<b>Total Debt Service on Outstanding Bonds</b>
2010	\$ 5,902	\$ 10,556	\$ 7,085	\$ 6,305	\$ 4,048	\$ 82,187	\$ 3,633	\$ 35,781	\$ -	\$ 155,497
2011	5,897	10,555	7,217	6,300	4,045	81,778	3,629	46,856	9,243	175,520
2012	5,892	10,546	7,494	6,305	4,048	84,792	3,628	79,459	9,017	211,181
2013	5,886	10,543	7,541	6,304	4,047	84,226	3,626	105,602	43,642	271,417
2014	1,027	10,536	9,350	6,302	4,050	83,659	3,631	110,129	43,641	272,325
2015	1,027	10,533	9,145	6,303	4,047	83,435	3,631	110,182	20,448	248,751
2016	1,027	10,529	8,892	6,304	4,048	83,210	3,632	110,267	20,445	248,354
2017	1,027	10,517	10,749	6,302	4,048	82,659	3,629	110,285	20,450	249,666
2018	1,027	10,507	10,670	6,301	4,050	82,128	3,630	78,541	33,640	230,494
2019	7,379	10,502	10,644	6,304	4,046	81,612	3,628	72,449	33,689	230,253
2020	7,370	10,497	11,115	6,304	4,048	84,526	3,628	21,313	-	148,801
2021	7,365	10,490	10,795	6,303	4,049	83,861	3,625	21,317	-	147,805
2022	-	10,486	10,457	6,302	4,049	83,207	3,628	21,316	-	139,445
2023	-	2,243	10,140	6,304	4,046	79,145	3,629	21,318	-	126,725
2024	-	2,142	9,826	6,300	4,045	78,679	3,627	21,313	-	125,932
2025	-	2,141	-	6,304	4,049	78,209	3,628	13,224	-	107,555
2026	-	2,143	-	-	4,049	77,743	3,624	11,185	-	98,744
2027	-	2,141	-	-	-	77,478	3,615	2,900	-	86,134
2028	-	2,139	-	-	-	78,170	3,609	2,905	-	86,823
2029	-	2,142	-	-	-	-	-	2,903	-	5,045
<b>Total</b>	<b>\$50,826</b>	<b>\$151,789</b>	<b>\$141,121</b>	<b>\$100,847</b>	<b>\$68,812</b>	<b>\$1,550,705</b>	<b>\$68,909</b>	<b>\$999,244</b>	<b>\$234,215</b>	<b>\$3,366,467</b>

Note (1) Includes Series 2002-A Bonds and Series 2002-B Bonds.

Note (2) Includes Series 2009-A Bonds, Series 2009-B Bonds, Series 2009-C Bonds, and Series 2009-D Bonds.

The Series 2009-D Bonds are tax credit bonds that mature in 2025. The Authority is required to make sinking fund deposits each year in the amount of \$7,591,769 to provide for payment of the principal of the Series 2009-D Bonds at maturity. The Authority has entered into an investment agreement with Bayerische Landesbank for the investment of the annual sinking fund deposits, providing an investment return rate of 3.40% per annum. For purposes of this table, debt service on Series 2009-D Bonds includes the required annual sinking fund payments plus interest payable on the Series 2009-D Bonds; debt service on the Series 2009-D Bonds does not include that portion of the principal of the Series 2009-D Bonds expected to be paid from the investment agreement (\$32,003,465).

Note (3) Includes Series 2010-A Bonds and Series 2010-B Bonds.

**Coverage of Total Debt Service.** The following table contains debt service requirements on Prior Lien Bonds and the Bonds and the estimated coverage of debt service requirements by estimated Pledged Revenues. The estimate of Pledged Revenues is based on fiscal year 2009 receipts.



**Table 4**  
**Estimated Coverage of Total Debt Service**  
(in thousands)

Fiscal Year Ending	Debt Service on Prior Lien Bonds <sup>(1)</sup>	Debt Service on the Bonds <sup>(2)</sup>							Estimated Pledged Revenues <sup>(6)</sup>	Estimated Debt Service Coverage (w/Subsidy) <sup>(7)</sup>	Estimated Debt Service Coverage (w/o subsidy) <sup>(7)</sup>
		Principal <sup>(3)</sup>	Interest <sup>(4)</sup>	Total (w/o subsidy)	Subsidy <sup>(5)</sup>	Net Debt Service (w/Subsidy)	Total Debt Service (w/o Subsidy)	Total Net Debt Service (w/Subsidy)			
2010	\$ 155,497						\$ 155,497	\$ 155,497	\$ 2,114,971	13.60	13.60
2011	175,520	\$ 9,102	\$ 8,309	\$ 17,410	\$ -8,309	\$ 9,102	192,930	184,622	2,114,971	11.46	10.96
2012	211,181	9,102	8,309	17,410	-8,309	9,102	228,591	220,283	2,114,971	9.60	9.25
2013	271,417	9,102	8,309	17,410	-8,309	9,102	288,827	280,519	2,114,971	7.54	7.32
2014	272,325	9,102	8,309	17,410	-8,309	9,102	289,735	281,427	2,114,971	7.52	7.30
2015	248,751	9,102	8,309	17,410	-8,309	9,102	266,161	257,853	2,114,971	8.20	7.95
2016	248,354	9,102	8,309	17,410	-8,309	9,102	265,764	257,456	2,114,971	8.21	7.96
2017	249,666	9,102	8,309	17,410	-8,309	9,102	267,076	258,768	2,114,971	8.17	7.92
2018	230,494	9,102	8,309	17,410	-8,309	9,102	247,904	239,596	2,114,971	8.83	8.53
2019	230,253	9,102	8,309	17,410	-8,309	9,102	247,663	239,355	2,114,971	8.84	8.54
2020	148,801	9,102	8,309	17,410	-8,309	9,102	166,211	157,903	2,114,971	13.39	12.72
2021	147,805	9,102	8,309	17,410	-8,309	9,102	165,215	156,907	2,114,971	13.48	12.80
2022	139,445	9,102	8,309	17,410	-8,309	9,102	156,855	148,547	2,114,971	14.24	13.48
2023	126,725	9,102	8,309	17,410	-8,309	9,102	144,135	135,827	2,114,971	15.57	14.67
2024	125,932	9,102	8,309	17,410	-8,309	9,102	143,342	135,034	2,114,971	15.66	14.75
2025	107,555	9,102	8,309	17,410	-8,309	9,102	124,965	116,657	2,114,971	18.13	16.92
2026	98,744	9,102	8,309	17,410	-8,309	9,102	116,154	107,846	2,114,971	19.61	18.21
2027	86,134	9,102	8,309	17,410	-8,309	9,102	103,544	95,236	2,114,971	22.21	20.43
2028	86,823						86,823	86,823	2,114,971	24.36	24.36
2029	5,045						5,045	5,045	2,114,971	419.22	419.22
<b>Total</b>	3,366,467	154,727	141,250	295,977	-141,250	154,727	3,662,444	3,521,194	42,299,420		

Note (1) From Table 3.

Note (2) Debt Service on the Bonds.

Note (3) Deposit to sinking fund assuming a single maturity on September 1, 2027. If the successful proposal includes maturities in years earlier than 2027, the annual sinking fund payments will increase accordingly and the estimated debt service coverage will decrease. The required sinking fund payments will be reduced to the extent of earnings received on the invested sinking fund deposits. The information shown in this column does not take any such earnings into account.

Note (4) Based on tax credit rate of 5.37% as of 7/28/2010

Note (5) Subject to receipt of subsidy payments pursuant to Qualified School Construction Bond Program

Note (6) Based upon fiscal year 2009 receipts as reflected in Table 7 under the caption "Summary of Pledged Revenues"

Note (7) Estimated pledged revenues divided by total debt service

## **History of the Utility Gross Receipts Tax and the Utility Service Use Tax**

The State levies the Utility Gross Receipts Tax on gross sales or gross receipts from utility services furnished by a utility in the State regularly engaged in furnishing utility services to the public in the State. The tax is levied even if the utility services are furnished by a municipal corporation or other governmental agency. For every utility furnishing electricity, domestic water or natural gas, the current tax rate is 4% of the first \$40,000 of monthly gross sales or gross receipts, plus 3% of the next \$20,000 of monthly gross sales or gross receipts, and 2% of all monthly gross sales or gross receipts over \$60,000. For every utility furnishing telegraph or telephone services, the current tax rate is 6% of monthly gross sales or gross receipts. The State Legislature has exempted from the Utility Gross Receipts Tax and the Utility Service Use Tax certain utility services.

The State levies the Utilities Service Use Tax on the sales price of utilities services furnished by any utility when stored, used or otherwise consumed in the State. The Utilities Service Use Tax is supplemental and complementary to the Utility Gross Receipts Tax. The Utilities Service Use Tax is levied at the Utility Gross Receipts Tax rates in those instances where the Utility Gross Receipts Tax would be levied if the utility services stored, used or otherwise consumed in the State were being furnished by a utility subject to the Utility Gross Receipts Tax in the State.

The Utility Gross Receipts Tax and the Utility Service Use Tax were first levied as of September 1, 1969, with the tax rates being the same regardless of the type of utility service provided. In the original levy, a 4% tax rate applied to the first \$8,500 of monthly gross sales or gross receipts, a 3% tax rate applied to the next \$11,500 of gross sales or gross receipts, a 2% tax rate applied to the next \$20,000 of gross sales or gross receipts, and a 1% tax rate applied to all monthly gross sales or gross receipts over \$40,000. On July 1, 1971, the rate structure for the Utility Gross Receipts Tax and Utility Service Use Tax was modified to provide for a levy of such taxes at the rate of 4% of the first \$40,000 of monthly gross sales or receipts, 3% of the next \$20,000 of gross sales or gross receipts, and 2% of all monthly gross sales or gross receipts over \$60,000, regardless of the type of utility service provided. On October 1, 1992, a bifurcated rate structure of 6.7% of the first \$60,000 of monthly gross sales or gross receipts, and 3.7% of all monthly gross sales or gross receipts over \$60,000 became effective for utilities furnishing telegraph or telephone services. On February 1, 2002, the levy was extended, as applied to telephone services, to include interstate telephone service. On April 1, 2002, the rate structure was modified to provide for the current flat rate of 6% for utilities furnishing telegraph or telephone services.

The statutes under which the Utility Gross Receipts Tax is levied provide for the deposit of all receipts from the imposition of the tax into the State Treasury to the credit of the Education Trust Fund, less expenses of administration, and beginning in the fiscal year ended September 30, 1993, less an annual deposit of \$14,600,000 into the State Treasury to the credit of the Special Mental Health Fund, with one fourth of such amount being deposited each quarter. Effective October 1, 2002, utilities furnishing telegraph or telephone services are allowed to retain and deduct .25% from the gross amount of tax billed by the utility. The statutes under which the Utility Service Use Tax is levied provide for the deposit of all receipts from the imposition of the tax into the State Treasury to the credit of the Education Trust Fund, less expenses of administration.

While over the past several years the State has experienced growth in annual receipts from portions of the Utility Gross Receipts Tax and the Utility Service Use Tax paid into the Education Trust Fund, as a result of the national economic crisis and the stress and weakness experienced in the State economy, receipts in the fiscal year ended September 30, 2009, were approximately \$1,000,000 below receipts for the fiscal year ended September 30, 2008. The following table reflects the net receipts, as

reported by the Finance Department, from the Utility Gross Receipts Tax and the Utility Service Use Tax paid into the Education Trust Fund during the fiscal years indicated.

**Table 5**

**Utility Gross Receipts Tax and  
Utility Service Use Tax Receipts  
Paid into the Education Trust Fund**

<b>Fiscal Year Ended September 30</b>	<b>Net Receipts</b>
1999	\$258,503,187
2000	274,263,310
2001	301,376,145
2002	294,684,113
2003	320,681,083
2004	325,844,204
2005	331,322,319
2006	376,871,893
2007	386,856,154
2008	411,878,603
2009	410,861,657

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Source: State Comptroller's Office Comparison of Net Receipts Reports.

In preparing the foregoing Table 4 above, the net receipts from these taxes, as reported by the Finance Department, which were paid into the Education Trust Fund for the fiscal year which ended September 30, 2009, have been used without projecting any decreases or increases in the net receipts. There is, of course, no assurance that (i) any growth experienced during prior years in the total receipts from the Utility Gross Receipts Tax and the Utility Service Use Tax will occur in the future or that there will be any growth in such receipts in the future, (ii) there will not be decreases in such receipts in the future, or (iii) that any decreases experienced in the future will not be substantially greater than the decrease experienced in the fiscal year ended September 30, 2009.

### **History of the Sales and Use Taxes**

The State levies the Sales Tax on retail sales of tangible personal property and admission fees. Generally, the tax is levied at the rate of 4% of gross sales or gross receipts; however, a 3% tax rate is levied on sales of vending machine food products, a 2% tax rate is levied on sales of motor vehicles, and a 1.5% tax rate is levied on sales of agricultural, mining and manufacturing equipment. The Use Tax is supplemental and complementary to the Sales Tax. The Use Tax is levied at the Sales Tax rates on the storage, use or consumption of tangible personal property in the State in those instances where the Sales Tax would be levied if the seller were subject to the Sales Tax in the State. The State Legislature has exempted from the Sales Tax and Use Tax sales and uses of certain items of tangible personal property.

The Sales Tax was first levied as of March 1, 1937, and the Use Tax was first levied as of March 1, 1939. Originally, these taxes were levied at the general rate of 2%; however, a .5% tax rate was applied to sales and uses of automotive vehicles. On October 1, 1951, the general tax rate was increased to 3%, and the tax rate imposed on sales and uses of automotive vehicles was increased to 1%. On October 1, 1959, the tax rate imposed on sales and uses of automotive vehicles was increased to 1.5%, and the same tax rate was made applicable to sales and uses of mining and manufacturing equipment. On October 1, 1963, the general tax rate was increased to 4%. On October 1, 1966, a 1.5% tax rate was made

applicable to sales and uses of agricultural equipment. On October 1, 1973, a 3% tax rate was made applicable to sales of vending machine food products. On October 1, 1988, the tax rate imposed on sales and uses of automotive vehicles was increased to 2%.

A monthly Sales Tax and Use Tax discount is available to licensed retailers that pay the tax before delinquency; provided, however, that the maximum discount available to any license holder is \$400 per month. Effective June 1, 1996, the Sales Tax discount is 5% of the first \$100 of taxes levied and 2% of taxes levied over \$100. From October 1, 1992 until May 31, 2001, the Use Tax discount was 3% of taxes levied and thereafter was reduced to zero. While the reduction of the allowable deductions increased revenues, such increased revenues were dedicated for purposes other than the Education Trust Fund.

The statutes under which the present Sales Tax is levied provide for distribution of the receipts from the imposition of the tax for the following purposes: (a) for payment of expenses of administration; (b) for payment to the several counties of moneys according to a fixed formula, the maximum aggregate amount to be paid out to all the counties in any fiscal year being \$378,000; (c) for payment to the State Department of Human Resources each fiscal year of the sum of \$1,322,000; (d) beginning October 1, 2002, for payment to the Department of Conservation and Natural Resources each fiscal year of the sum of \$5,000,000 of the increase in tax receipts due to the cap imposed on license holder discounts, and the balance of the sum equal to the increase in tax receipts due to the cap on license holder discounts to the credit of the State General Fund; (e) for payment to the State Department of Human Resources each fiscal quarter of the sum equal to 5% of the value of food stamp benefits issued in the state in excess of amounts paid by the recipients of same during the immediately preceding quarter, limited to the amount of 1976-77 fiscal year "administrative costs, normal inflationary increases and mandated administration requirements of the Alabama Legislature and the United States Department of Agriculture"; (f) for deposit into the State Treasury to the credit of the State General Fund of 42% of the tax levied on sales of automotive vehicles, and 50% of the tax levied on sales of motorboats not collected by the seller; and (g) for deposit into the State Treasury to the credit of the Education Trust Fund of the remaining balance.

The statutes under which the Use Tax is levied provide for distribution of the receipts from the imposition of the tax for the following purposes: (a) for payment of expenses of administration; (b) for deposit into the State Treasury to the credit of the State General Fund of 42% of the tax levied on uses of automotive vehicles, and 50% of the tax levied on uses of motorboats not collected by the seller; and (c) for deposit into the State Treasury to the credit of the Education Trust Fund of the remaining balance.

While over the past several years the State has experienced growth in annual receipts from the Sales Tax and Use Tax paid into the Education Trust Fund, as a result of the national economic crisis and the stress and weakness experienced in the State economy, receipts for the fiscal year ended September 30, 2008 were approximately \$15,446,467 below receipts for the fiscal year ended September 30, 2007, and receipts for the fiscal year ended September 30, 2009 were approximately \$265,404,434 below receipts for the fiscal year ended September 30, 2008.

The following table reflects the net receipts from the Sales Tax and the Use Tax paid into the Education Trust Fund and available to pay debt service on bonds funded by these taxes during the fiscal years indicated.

**Table 6**

**Sales and Use Tax Receipts Paid  
Into the Education Trust Fund**

<b>Fiscal Year Ended September 30</b>	<b>Net Receipts from Both Taxes Paid into the Education Trust Fund</b>
1999	\$1,485,866,138
2000	1,510,176,578
2001	1,476,550,101
2002	1,524,990,592
2003	1,488,238,747
2004	1,616,245,545
2005	1,721,836,751
2006	1,859,286,747
2007	1,984,960,485
2008	1,969,514,018
2009	1,704,109,584

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Source: State of Alabama Comparison of Net Receipts

In preparing the foregoing Table 4 above, the net receipts paid into the Education Trust Fund from the Sales Tax and the Use Tax, as reported by the Finance Department, for the fiscal year ended September 30, 2009, have been used without projecting any increase or decrease in receipts from these taxes. There is, of course, no assurance that (i) any growth experienced during prior years in the total receipts from the State Tax and the Use Tax will occur in the future or that there will be any growth in such receipts in the future, (ii) there will not be decreases in such receipts in the future, or (iii) that any decreases experienced in the future will not be substantially greater than the decreases experienced in the fiscal years ended September 30, 2008 and September 30, 2009.

**Summary of Pledged Revenues**

The following table reflects the total net receipts, as reported by the Finance Department, of the Pledged Revenues paid into the Education Trust Fund during the fiscal years indicated.

**Table 7**

**Pledged Revenue Receipts  
Paid into the Education Trust Fund**

<b>Fiscal Year Ended September 30</b>	<b>Aggregate Net Receipts Paid into the Education Trust Fund <sup>(1)</sup></b>
1999	\$1,744,369,325
2000	1,784,439,888
2001	1,777,926,246
2002	1,819,674,705
2003	1,808,919,830
2004	1,942,089,749
2005	2,053,159,070
2006	2,236,158,640
2007	2,371,816,639
2008	2,381,392,621
2009	2,114,971,241

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Note (1) Sum of net receipts reflected in Tables 5 and 6. An additional component of receipts from the Lease Tax was deposited to the Education Trust Fund for the fiscal years ended September 30, 1999, 2000 and 2001 in the amounts of \$23,981,818, \$25,438,734 and \$6,621,202, respectively.

**Litigation**

There is no litigation pending or, to the knowledge of the Authority, threatened to restrain or enjoin the authorization, sale or delivery of the Bonds or adversely affecting the power of the Authority to apply the Pledged Revenues to the payment of the Bonds. APPENDIX A to the 2010 Bond Official Statement includes descriptions of certain pending cases challenging the application of certain taxes, but neither the State nor the Authority is a party to any legal proceeding challenging the validity of the Pledged Taxes.

From time to time, the Authority is named as a defendant in lawsuits arising out of contractual disputes relating to construction of projects financed with funds supplied by the Authority. Such lawsuits do not adversely affect the ability of the Authority to issue the Bonds or to apply the Pledged Revenues to the payment thereof. There are other pending lawsuits involving the State, unrelated to the Authority, the Bonds, or the Pledged Revenues, an adverse decision in which may have a detrimental effect on the State's financial position or revenues. See the 2010 Bond Official Statement, APPENDIX A - "INFORMATION ABOUT THE STATE OF ALABAMA - LITIGATION."

In March 2002 the Authority and JPMorgan Chase Bank ("JPMorgan") entered into a series of agreements (collectively, the "Swap Options") in connection with the Authority's Series 1998 Bonds, Series 1999-A Bonds, Series 1999-C Bonds, and Series 1999-D Bonds. The Swap Options were amended in 2003. Under the terms of the Swap Options the Authority received lump sum payments of approximately \$12.6 million, and JPMorgan was granted an option to require the Authority to enter into fixed rate payer swaps in connection with variable rate refundings of these bonds.

JPMorgan gave notice of exercise of the first option in June 2008 and has since given notice of the exercise of each of the other options. From July 2008 through October 2008, prior to the exercise date for the first Swap Option, the Authority initiated discussions with JPMorgan about the Swap Options and raised concerns about the structure and legality of the Swap Options. The Authority and JPMorgan were not able to reach an agreement that would resolve the Authority's concerns, and in October 2008 the

Authority filed a declaratory judgment action in federal district court requesting the court to determine the rights and obligations of the parties under the Swap Options. In its complaint the Authority asks the court to determine whether, among other things, the Swap Options comply with procedural and documentation requirements imposed by state statute, whether, in light of the requirement that the Authority make fixed rate payments that were front-end loaded in relation to the expected refunding bond amortization, the substance of the Swap Options should be considered an unauthorized loan, rather than a hedge against interest rate risk, and whether the anticipated refunding transactions were feasible or possible to perform under the terms required by state law and in light of the deterioration of the market for variable rate demand bonds. The Authority's complaint also discloses that the former Finance Director, James Allen Main, received a subpoena for documents initiated by the United States Department of Justice seeking information concerning the Swap Options and related transactions. See Case No. 2:08-CV-863-WKW in the United States District Court for the Middle District of Alabama, Northern Division.

JPMorgan filed a motion to dismiss the Authority's action, which the court denied. Thereafter, JPMorgan filed an answer, which includes a counterclaim seeking approximately \$122 million plus interest and attorneys' fees as a result of the termination of the Swap Options and the Authority's alleged failure to perform. The case is set for trial in February 2011.

If the result of this litigation is a determination that the Swap Options are valid agreements requiring a payment by the Authority to JPMorgan, the amount payable could range from \$12.6 million (the lump sum payment received by the Authority) to the \$122 million plus interest and attorneys' fees claimed by JPMorgan. The Authority expects to make any required payment from the Pledged Taxes or from the proceeds of bonds issued to finance any required payment. The Authority's legislative appropriation for the current fiscal year includes authority to pay amounts that may be due under the Swap Options. Legislative approval is required for continuation of the authority in future fiscal years. Additional legislative approval may be required to finance the payment with a bond issue. The Authority does not believe that any required payment on the Swap Options will jeopardize the payment of debt service on its bonds or have a significant adverse impact on the financial condition of the Education Trust Fund.

#### **Additional Information Available About the Authority and its Financing Programs**

Further information respecting the Authority is presented in the Comprehensive Annual Financial Report of the State of Alabama for the fiscal year that ended September 30, 2009. This report may be obtained from the State website at [www.comptroller.alabama.gov](http://www.comptroller.alabama.gov).

In addition, potential Lenders may refer to the 2010 Bond Official Statement and may also refer to the Authority's continuing disclosure information filed periodically pursuant to the MSRB's Electronic Municipal Market Access System (EMMA) filing system. This information may be accessed through [www.emma.msrb.org](http://www.emma.msrb.org). The base CUSIP number for the Authority's bonds is 010608.

The direct lending transaction contemplated in this request for proposals will be exempt from the continuing disclosure requirements of Rule 15c2-12 of the Securities Exchange Commission. No separate continuing disclosure agreement will be executed in connection with the Loans or the Bonds.

## **B. THE PLAN OF FINANCING FOR THE BONDS AND BORROWING TERMS**

### **Plan of Financing**

The Authority expects to issue the Bonds in the aggregate principal amount of \$154,727,000 and will designate the Bonds as "Qualified School Construction Bonds" under Section 54F of the Internal Revenue Code of 1986, as amended (the "Code"). Proceeds from the Bonds (including investment earnings on the Bond proceeds) will be loaned to local boards of education (the "Local Boards") and applied solely to the construction, rehabilitation or repair of public school facilities (including the acquisition of equipment to be used in such portion or portions of the public school facilities that are being constructed, rehabilitated or repaired with the proceeds of the Bonds), or the acquisition of land on which such facilities are to be constructed with part of the proceeds of the Bonds, and to payment of certain costs of issuing the Bonds not in excess of two percent of the issue price of the Bonds. The Authority reasonably expects that all available project proceeds will be spent for such qualified purposes within three years of the date of issuance of the Bonds, and that a binding commitment with a third party to spend at least 10 percent of such available project proceeds will be incurred within the six month period beginning on the date of issuance of the Bonds.

The proceeds of the Bonds will be loaned to certain specified Local Boards in order to finance capital improvements approved by the Authority and the State Superintendent of Education. Seventeen (17) Local Boards have requested loans to be funded from proceeds of the Bonds. Such loans will be evidenced by obligations issued by the Local Boards in favor of the Authority which will be payable from and secured by pledges of such Local Boards' respective allocable shares of the Capital Outlay Funds or other local funds available to any such Local Board as may be acceptable to the Authority and approved by the Alabama State Superintendent of Education. **ALTHOUGH THE AUTHORITY EXPECTS THAT THE REVENUES PLEDGED BY PARTICIPATING LOCAL BOARDS WILL BE APPROXIMATELY EQUAL TO AND MAY BE USED FOR PAYMENT OF DEBT SERVICE ON THE BONDS, SUCH REVENUES WILL NOT BE PLEDGED AS SECURITY FOR THE BONDS AND HOLDERS OF THE BONDS WILL HAVE NO RECOURSE AGAINST SUCH REVENUES.**

### **Borrowing Terms**

- (a) The aggregate principal amount of the Bonds is expected to be \$154,727,000.
- (b) Interest on the Bonds will not be tax-exempt. Rather, interest will be included in gross income of the Lenders. The Lenders will not receive any tax credits with respect to the Bonds. The Authority expects to receive subsidy payments from the federal government with respect to interest payments. The Lenders will not have a security interest in any such subsidy payments.
- (c) Bidders may specify the maturity date(s), interest rate(s) and origination fee (if any) as indicated on the Form of Proposal attached as Exhibit A. In any case, proposals must be for all the Bonds (\$154,727,000). If a joint proposal is submitted by a group of financial institutions, the identity of each Lender and the respective amounts and maturities it is purchasing must be specified. The Authority will make annual payments into a sinking fund that will be held by the State Treasurer and invested in permissible investments under State law. The sinking fund will be pledged as security for the Bonds and will be paid out as the Bonds mature.
- (d) The Bonds will bear fixed interest rates. The rates may differ for each maturity.
- (e) Interest payments will be made semiannually.



(f) Lenders may propose a reasonable origination fee, not to exceed thirty (30) basis points, i.e., \$464,181, payable by the Authority at closing.

(g) The Bonds may be prepaid prior to maturity as follows:

(i) Extraordinary Optional Redemption. The Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part (on a pro rata basis as described below), upon the occurrence of a material adverse change to the provisions of the Code pertaining to qualified school construction bonds (as determined by the Authority) or the publication by the Internal Revenue Service or the Treasury of guidance with respect to such provisions or any other determination by the Internal Revenue Service or the Treasury which results, in any such case, in the reduction or elimination of the interest subsidy payments and which is not the result of any act or omission by the Authority to fail to satisfy the requirements to qualify to receive an interest subsidy payment, at the Extraordinary Optional Redemption Price. The "Extraordinary Optional Redemption Price" shall mean the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the redemption date, discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 100 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed to the redemption date.

"Treasury Rate" shall mean, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" shall mean, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bond to be redeemed.

"Comparable Treasury Price" shall mean (a) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations.

"Designated Investment Banker" shall mean one of the Reference Treasury Dealers appointed by the Authority.

"Reference Treasury Dealer" shall mean each of not less than four firms, specified by the Authority from time to time, that are primary United States Government securities dealers in the City of New York (each, a "Primary Treasury Dealer"), provided that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" shall mean, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

"Valuation Date" shall mean a date at least two Business Days but not more than sixty (60) calendar days preceding the redemption date.

(ii) Extraordinary Mandatory Redemption. To the extent that 100% of the available project proceeds are not expended for qualified purposes by the date falling three years after the closing date, or if an extension of such expenditure period has been received by the Authority from the Secretary of the Treasury, by the date that occurs on the close of the extended period, the Authority shall redeem Bonds in a principal amount equal to such unexpended available project proceeds (on a pro rata basis as described below) within 90 days after the end of such period, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus any interest accrued to the redemption date.

If less than all the Bonds are to be redeemed, the principal amount of Bonds to be redeemed may be specified by the Authority by written notice to the Paying Agent not less than 45 days before the date fixed for redemption (unless a shorter notice is acceptable to the Paying Agent).

If the Bonds are not registered in book-entry-only form, any redemption of less than all of the outstanding Bonds will be allocated among the registered owners of such Bonds as nearly as practicable in proportion to the principal amounts of the Bonds owned by each registered owner, subject to the authorized denominations applicable to the Bonds. This will be calculated based on the formula: (principal amount of applicable maturity to be redeemed) x (principal amount of applicable maturity owned by owner) / (principal amount of applicable maturity outstanding). The particular Bonds to be redeemed will be determined by the Authority, using such method as it deems fair and appropriate.

(h) Any special covenants or Loan provisions must be described in your proposal. The Authority prefers that the security covenants and terms be consistent with prior Authority financings. See the 2010 Official Statement referred to above for a description of such covenants. Any special covenant or provision may cause a proposal to be rejected.

(i) The Bonds will be issued in typewritten form and will not be registered with the Depository Trust Company or in Book-Entry Form, unless the Lenders request that all the Bonds be so registered.

## **C. PROCEDURES FOR CONSIDERATION AND ACCEPTANCE OF PROPOSALS**

(a) The Authority requests proposals for a direct Loan or Loans by a financial institution or by a group of financial institutions. Proposals shall be submitted on the Form of Proposal attached hereto as Exhibit A, delivered in written form or by email to the Secretary of the Authority as shown below no later than the time shown below:

Deliver proposals to: Mr. Bill Newton  
Acting Finance Director  
Alabama Department of Finance  
600 Dexter Avenue, Room N-105  
Montgomery, Alabama 36104  
(334) 242-7160

Email proposals to: bill.newton@budget.alabama.gov

Date: August 25, 2010

Time: No later than 10:00 a.m., Central time

If a proposal is submitted jointly by more than one financial institution, the proposal should identify the financial institutions in the group and should indicate which portion of the Loan (principal maturity or maturities) will be made by each member of the group. The obligation of each group member will be separate and several. Group members will not have joint and several liability for the entire Loan amount.

(b) To be considered, a proposal must be in the aggregate principal amount of the Bonds, i.e., \$154,727,000.

(c) Lenders are expected to obtain all necessary credit approvals prior to submitting a proposal. By submitting a proposal, Lenders will be deemed to represent that all such approvals have been obtained.

(d) Proposals should not be made contingent upon additional business relationships (e.g., further banking services, change in depository or investment relationships). Lenders will bear their own expenses of closing, including the fees of counsel to the Lender(s).

(e) The Authority will enter into a separate financing agreement (a "Financing Agreement") with each selected Lender. The proposed form of Financing Agreement is attached as Exhibit B. Each Lender will be expected to execute and deliver its Financing Agreement to the Authority by 4:00 p.m., Central time on August 30, 2010. The Loans are expected to be funded and the Bonds issued on or about September 8, 2010.

(f) Each Financing Agreement will include representations to the effect that the Lender (i) has sufficient knowledge and experience in financial and business matters to make it capable of evaluating the merits and risks of making its Loan and (ii) is not purchasing for more than one account or with a view to distributing the Loan or Bond, or any interest therein.

(g) The Authority's financial advisor, Public, FA, Huntsville, Alabama, has established a website for additional information concerning the Loans, the Bonds and this request for financing proposals. The website address is: [www.publicfa.com/publicdocs/AlabamaPSCA2010QandAtoRFP](http://www.publicfa.com/publicdocs/AlabamaPSCA2010QandAtoRFP). Potential lenders may request additional information and may submit questions to the Authority by email no later than August 20, 2010 addressed to [pdotts@publicfa.com](mailto:pdotts@publicfa.com). Interested parties may visit the website on which the Authority will post (i) copies of this request for proposals, the Form of Proposal and the expected form of Financing Agreement; (ii) a copy of the 2010 Bond Official Statement; (iii) responses to any questions or requests for additional information; and (iv) any revisions to the information contained in this request for proposals or to the procedures for the submission and consideration of proposals.

(h) The Authority will notify the financial institutions that have submitted proposals of its selection of a Lender(s) no later than 5:00 o'clock, p.m., Central time on August 26, 2010. The selection shall be in the sole discretion of the Authority, taking into consideration, *inter alia*, the terms specified in each proposal including maturities, interest rates, origination fee (if any) and other provisions (if any).

## EXHIBIT A

### Form of Proposal

Alabama Public School and College Authority  
Qualified School Construction Bond Program

August 25, 2010

This Proposal is provided in response to the Request for Proposals (the "Request for Proposals") dated August 11, 2010 distributed by Alabama Public School and College Authority (the "Authority") relating to financing of its Qualified School Construction Bond Program (the "Program"). Reference is made to the Request for Proposals for clarification with respect to any provision contained within this Form of Proposal.

Proposals should be submitted to the Secretary of the Authority in written form or via email as shown below:

Deliver to: Mr. Bill Newton  
Acting Finance Director  
Alabama Department of Finance  
600 Dexter Avenue, Room N-105  
Montgomery, Alabama 36104  
(334) 242-7160

Email to: bill.newton@budget.alabama.gov

To be considered, Proposals must be received no later than 10:00 o'clock a.m., Central time, on August 25, 2010.

Proposals may be submitted under Option I or Option II as shown below, or both. In any case, Proposals must be with respect to all of the Bonds (\$154,727,000).

The undersigned financial institutions hereby propose to provide financing for the Program as follows (check the option(s) to be submitted):

☐ **OPTION I**    **Single principal maturity due September 1, 2027**

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Origination Fee (if any)</u>
September 1, 2027	\$154,727,000	_____ %	\$ _____

☐ **OPTION II** Principal maturing on September 1, 2020 and on September 1, 2025, 2026 or 2027 as indicated below

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Origination Fee (if any)</u>	<u>Amortization Option<sup>(3)</sup></u>	
September 1, 2020	\$91,000,000 <sup>(1)</sup>	_____ %	\$ _____	No amortization permitted for this maturity	
September 1, 2025 <sup>(2)</sup>	\$63,727,000 <sup>(1)</sup>	_____ %	\$ _____	<input type="checkbox"/> yes	<input type="checkbox"/> no
September 1, 2026 <sup>(2)</sup>	\$63,727,000 <sup>(1)</sup>	_____ %	\$ _____	<input type="checkbox"/> yes	<input type="checkbox"/> no
September 1, 2027 <sup>(2)</sup>	\$63,727,000 <sup>(1)</sup>	_____ %	\$ _____	<input type="checkbox"/> yes	<input type="checkbox"/> no

Bid Requirements with respect to Option II only

- (1) Subject to adjustment by the Authority prior to closing if, and to the extent, necessary to comply with federal tax law requirements.
- (2) Proposals may specify a maturity on September 1, 2025, September 1, 2026, or September 1, 2027 (but only one of such dates) by indicating the proposed interest rate and origination fee (if any) applicable to such maturity.
- (3) Proposals may specify that the principal amount maturing in 2025, 2026 or 2027 shall be amortized through equal mandatory annual redemptions due on each September 1, commencing September, 2021.

Other General Bidding Requirements

1. Origination fees, if any, may not exceed 30 basis points. Origination fees will be taken into account by the Authority in determining the most beneficial response.
2. Responses with any special conditions deemed material by the Authority in its sole judgment are subject to disqualification.
3. All expenses incurred by a bidder related to either its response or closing will be paid by the bidder. The Authority will pay the costs specified in the Request for Proposals.
4. If this Proposal is submitted by more than one institution, identify each institution below including the respective principal amount and maturity of the Loan to be made by such institution.

The undersigned acknowledge that we will execute and deliver a Financing Agreement substantially in the form attached as Exhibit B to the Request for Proposals no later than August 30, 2010.

We represent that we have full and complete authority to submit this bid.

Respectfully submitted,

NAME OF FIRM:

By \_\_\_\_\_  
Title: \_\_\_\_\_

Maturity Date \_\_\_\_\_ Amount \$ \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_

Telephone: \_\_\_\_\_

Facsimile: \_\_\_\_\_

NAME OF FIRM:

By \_\_\_\_\_  
Title: \_\_\_\_\_

Maturity Date \_\_\_\_\_ Amount \$ \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_

Telephone: \_\_\_\_\_

Facsimile: \_\_\_\_\_

NAME OF FIRM:

By \_\_\_\_\_

Title: \_\_\_\_\_

Maturity Date \_\_\_\_\_ Amount \$ \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_

Telephone: \_\_\_\_\_

Facsimile: \_\_\_\_\_

NAME OF FIRM:

By \_\_\_\_\_

Title: \_\_\_\_\_

Maturity Date \_\_\_\_\_ Amount \$ \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_

Telephone: \_\_\_\_\_

Facsimile: \_\_\_\_\_



## **EXHIBIT B**

### **Form of Financing Agreement**

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**FINANCING AGREEMENT**

**Dated August 27, 2010**

**Between**

**ALABAMA PUBLIC SCHOOL AND COLLEGE AUTHORITY**

**and**

---

## FINANCING AGREEMENT

**THIS FINANCING AGREEMENT** dated August 27, 2010 is entered into by **ALABAMA PUBLIC SCHOOL AND COLLEGE AUTHORITY**, an Alabama public corporation (the "Authority"), and \_\_\_\_\_ (the "Lender").

### Recitals

The Authority expects to issue its 2010 Capital Improvement Pool QSCB Direct Loan Bonds in the aggregate principal amount of \$154,727,000 (the "Bonds"), the proceeds of which will be loaned to local boards of education to finance certain public school facilities permitted under the Internal Revenue Code of 1986, as amended, and approved by the State Superintendent of Education.

Pursuant to this Agreement the Lender has agreed to make a loan (the "Loan") to the Authority in the principal amount of \$\_\_\_\_\_,000 to provide [a portion of] the financing as described above.

The Loan will be evidenced by the Authority's 2010 Capital Improvement Pool QSCB Direct Loan Bond in the principal amount of \$\_\_\_\_\_ (the "Lender Bond"). The form of the Lender Bond is attached hereto as Exhibit A (which is subject to change at the discretion of the Authority).

The general terms of the Bonds, including the Lender Bond, are described in the request for proposals distributed by the Authority on August 11, 2010 (the "RFP") and the resolution adopted by the Board of Directors of the Authority on August \_\_, 2010 authorizing the issuance of the Bonds (the "Resolution").

[To be inserted if there are multiple Lenders: \_\_\_\_\_ and \_\_\_\_\_ (the "Other Lenders") have executed and delivered similar Financing Agreements pursuant to which the Other Lenders have agreed to make additional loans to the Authority in the aggregate principal amount of \$\_\_\_\_\_, evidenced by Bonds in the same aggregate amount as the additional loans. The sum of the principal amount of the Loan and the additional loans to be made by the Other Lenders aggregate \$154,727,000.]

**NOW, THEREFORE**, for and in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto covenant, agree and bind themselves as follows:

### **Section 1. Agreement to Make the Loan**

Upon the terms and conditions in the Resolution, the Lender hereby agrees to lend to the Authority, and the Authority hereby agrees to borrow from the Lender, \$\_\_\_\_\_. The Authority's obligation to repay the Loan shall be evidenced by the Lender Bond. The Loan and the Lender Bond shall bear interest from September \_\_, 2010 or such other date as shall be mutually agreed upon by the Authority and the Lender (the "Closing Date") at the rate per annum and shall have the maturity indicated on Exhibit B attached hereto. The Loan shall be funded on the Closing Date by wire transfer from the Lender of funds in an amount equal to \$\_\_\_\_\_ [(principal amount of \$\_\_\_\_\_, less the Lender's origination fee of \$\_\_\_\_\_)].

The Loan and the Bonds are not general obligations of the Authority nor are they obligations of the State of Alabama. The Loan and the Bonds, including the Lender Bond, are limited obligations of the Authority payable from the sources described in the form of Lender Bond.

## **Section 2. Representations**

(a) **Representations by the Authority.** The Authority hereby represents and warrants to the Lender as follows:

(1) The Authority is duly organized as a public corporation under the laws of the State of Alabama, with full power to accept the Loan, to enter into this Financing Agreement and to issue the Lender Bond.

(2) The Authority has duly authorized the acceptance of the Loan, the execution and delivery of this Financing Agreement and the issuance of the Lender Bond. This Financing Agreement constitutes, and when issued and delivered the Lender Bond will constitute, the legal, valid and binding limited obligations of the Authority enforceable against it in accordance with the terms of such instruments, except as enforcement thereof may be limited by (i) bankruptcy, insolvency, sovereign immunity, or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

(3) Except as described in the RFP, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before or by any court, public board or body, pending or, to the knowledge of the Authority, threatened against the Authority to (i) restrain or enjoin the issuance of the Bonds or the execution and delivery by the Authority of this Financing Agreement, or (ii) wherein an unfavorable decision, ruling or finding would have a material adverse effect on the transactions contemplated hereby.

(b) **Representations by the Lender.** The Lender represents and warrants to the Authority as follows:

(1) This Financing Agreement constitutes the legal, valid and binding obligation of the Lender enforceable against it in accordance with its terms, except as enforcement thereof may be limited by (i) bankruptcy, insolvency, or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

(2) The Lender has sufficient knowledge and experience in financial and business matters to render it capable of evaluating the merits and risks of the Loan and the Lender Bond. The Lender is making the Loan, as evidenced by the Lender Bond, for its own account and not with a view to distributing the Loan or the Lender Bond or any interest therein to any person or entity. Although it has no present intention of reselling or otherwise distributing the Loan or the Lender Bond or any interest therein to any person or entity, the Lender reserves the right to sell or dispose of the Loan and the Lender Bond in accordance with its own business judgment.

## **Section 3. Closing**

(a) Subject to the conditions described below, not later than 12:00 noon (Montgomery, Alabama time) on the Closing Date, the Authority will deliver the Lender Bond to the Lender in definitive form, duly executed and authenticated, together with the other documents required by this Section 3; and the Lender will accept such delivery and will fund the Loan by wire transfer of immediately available funds in the amount of \$\_\_\_\_\_ for the account of the Authority. Such wire transfer shall be made as directed by the Authority either to the State Treasurer or to an account of the Authority maintained at a bank in the continental United States, which account shall be identified by notice to the Lender at least two business days prior to the Closing Date.

(b) The Lender's obligation to fund the Loan and to accept and pay for the Lender Bond shall be subject to receipt of the following documents on or prior to the Closing Date:

(1) **Resolution.** A certified copy of the Resolution, together with a certificate of the Secretary of the Authority to the effect that the Resolution is in full force and effect and has not been modified or amended since the date of its adoption.

(2) **Lender Bond.** The properly executed, authenticated and delivered Lender Bond.

(3) **Opinion of Bond Counsel.** An opinion of bond counsel (Balch & Bingham LLP, Birmingham, Alabama), dated as of the Closing Date, substantially in the form set out as Exhibit C to this Financing Agreement.

[(4) **Opinion of Counsel for the Authority.** An opinion of counsel for the Authority (\_\_\_\_\_, \_\_\_\_\_, Alabama), dated as of the Closing Date.]

(5) **Financing Agreement.** A duly executed and delivered counterpart of this Financing Agreement.

(6) **Authority Closing Certificate.** A certificate executed by a duly authorized officer of the Authority to the effect that the representations of the Authority contained in Section 2(a) of this Financing Agreement are true and accurate as of the Closing Date.

#### **Section 4. Conditions to Lender's Obligations**

The Lender has entered into this Financing Agreement in reliance upon the representations and agreements of the Authority contained herein. Accordingly, the Lender's obligations under this Agreement to make the Loan and to purchase the Lender Bond shall be conditioned upon the performance by the Authority of its obligations to be performed hereunder.

**IN WITNESS WHEREOF**, the Authority and the Lender have caused this Agreement to be executed and delivered by their duly authorized officers or agents.

\_\_\_\_\_  
**[Lender]**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**ALABAMA PUBLIC SCHOOL AND COLLEGE  
AUTHORITY**

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**Form of Lender Bond**

No. \_\_\_\_\_

\$ \_\_\_\_\_

UNITED STATES OF AMERICA

STATE OF ALABAMA

ALABAMA PUBLIC SCHOOL AND COLLEGE AUTHORITY

2010 CAPITAL IMPROVEMENT POOL QSCB DIRECT LOAN BONDS

**ALABAMA PUBLIC SCHOOL AND COLLEGE AUTHORITY  
HAS DESIGNATED THIS BOND AS A QUALIFIED SCHOOL  
CONSTRUCTION BOND WITHIN THE MEANING OF SECTION 54F  
OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.**

Interest Rate  
\_\_\_\_\_ %

Maturity Date  
\_\_\_\_\_, \_\_\_\_

Unless the principal of this bond shall have been duly called for previous redemption and payment duly provided for, for value received, ALABAMA PUBLIC SCHOOL AND COLLEGE AUTHORITY, a public corporation and instrumentality under the laws of the State of Alabama (herein called the "Authority"), will pay to

\_\_\_\_\_

or registered assigns, solely out of the sources of payment hereinafter referred to, the principal sum of

\_\_\_\_\_ DOLLARS

on the maturity date specified above with interest thereon from the dated date hereof until the maturity hereof at the per annum rate of interest specified above, payable on each March 1 and September 1, beginning March 1, 2011. Overdue installments of principal of and interest and premium (if any) on this bond shall bear interest from their respective due dates until paid at the rate of interest borne by the principal hereof prior to maturity. All interest on this bond (including, without limitation, interest on overdue installments of principal, interest and premium) shall be computed on the basis of a 360-day year of 12 consecutive 30-day months. The principal of and premium (if any) on this bond shall be payable in lawful money of the United States of America at the office of the State Treasurer of the State of Alabama (herein, in such capacity, called the "Paying Agent") in the City of Montgomery, Alabama, and the interest payable on this bond on each interest payment date shall (except for the final payment of such interest which shall be made only upon the surrender of this bond) be remitted by the Paying Agent by check or draft mailed to the registered holder hereof at the address shown on the bond register maintained by the Paying Agent or, upon satisfaction of the provisions in the Bond Resolution (hereinafter defined), by wire transfer or electronic funds transfer.

This bond is one of a duly authorized issue of bonds authorized to be issued in the aggregate principal amount of \$154,727,000 and designated 2010 Capital Improvement Pool QSCB Direct Loan

Bonds (herein called the "Bonds"), which have been issued pursuant to the provisions of Act No. 98-373 enacted at the 1998 Regular Session of the Legislature of Alabama and Act No. 2009-813 enacted at the 2009 Special Session of the Legislature of Alabama (herein called the "Authorizing Acts") and a resolution duly adopted by the Authority (herein called the "Bond Resolution") on \_\_\_\_\_, 2010. The Bonds have been issued for the purpose of making loans to certain local boards of education in the State of Alabama. Capitalized terms not otherwise defined in this bond shall have the meanings assigned in the Bond Resolution.

The principal of and the interest on the Bonds are payable out of so much as may be necessary for that purpose of the residue remaining after deduction of the costs of collection and existing prior appropriations of the revenues from the utility gross receipts tax, the utility service use tax, the sales tax and the use tax, all as more specifically described in the Authorizing Acts (the "Pledged Revenues"), levied by the State of Alabama (herein called the "State"), pledged and appropriated by the Authorizing Acts, and authorized by the Authorizing Acts to be pledged by the Authority for the benefit of the Bonds. The revenues from the "lease tax" described in the Authorizing Acts have not been pledged as security for the Bonds and are not included in the "Pledged Revenues". Payment of the principal of and the interest on the Bonds is secured, pro rata and without preference or priority of one bond over another, by a valid pledge and appropriation of the Pledged Revenues, but subordinate to the pledge of such Pledged Revenues for the benefit of all prior outstanding bonds of the Authority. The Bonds are solely and exclusively obligations of the Authority payable out of, and secured solely by, the Pledged Revenues and are not obligations or debts of the State or any political subdivision thereof.

The Authority shall deposit the Cumulative Sinking Fund Deposits into the Cumulative Sinking Fund Deposit Account as provided in the Bond Resolution.

Extraordinary Optional Redemption. The Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part (on a pro rata basis as described below on any Business Day), upon the occurrence of a material adverse change to the provisions of the Code pertaining to qualified school construction bonds (as determined by the Authority) or the publication by the Internal Revenue Service or the Treasury of guidance with respect to such provisions or any other determination by the Internal Revenue Service or the Treasury which results, in any such case, in the reduction or elimination of the Interest Subsidy Payments and which is not the result of any act or omission by the Authority to fail to satisfy the requirements to qualify to receive an Interest Subsidy Payment, at the Extraordinary Optional Redemption Price. The "Extraordinary Optional Redemption Price" shall mean the greater of (i) 100% of the principal amount of the Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal of and interest on the Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the redemption date, discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 100 basis points, plus, in each case, accrued and unpaid interest on the Bonds to be redeemed to the redemption date.

"Treasury Rate" shall mean, the rate per annum, expressed as a percentage of the principal amount, equal to the semi-annual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" shall mean the United States Treasury security or securities selected by the Designated Investment Banker which have an actual or interpolated maturity comparable to the remaining average life of the Bond to be redeemed, and that would be utilized

in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Bond to be redeemed.

"Comparable Treasury Price" shall mean (a) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (b) if the Designated Investment Banker obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations.

"Designated Investment Banker" shall mean one of the Reference Treasury Dealers appointed by the Authority.

"Reference Treasury Dealer" shall mean each of not less than four firms, specified by the Authority from time to time, that are primary United States Government securities dealers in the City of New York (each, a "Primary Treasury Dealer"), provided that if any of them ceases to be a Primary Treasury Dealer, the Authority will substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" shall mean, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the Valuation Date.

"Valuation Date" shall mean a date at least two Business Days but not more than sixty (60) calendar days preceding the redemption date.

Extraordinary Mandatory Redemption. To the extent that 100% of the Available Project Proceeds are not expended for Qualified Purposes by the date falling three years after the Closing Date, or if an extension of such expenditure period has been received by the Authority from the Secretary of the Treasury, by the date that occurs on the close of the extended period, the Authority shall redeem Bonds in a principal amount equal to such unexpended Available Project Proceeds (on a pro rata basis as described below) within 90 days after the end of such period, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus any interest accrued to the redemption date.

If less than all the Bonds are to be redeemed, the principal amount of Bonds to be redeemed may be specified by the Authority by written notice to the Paying Agent not less than 45 days before the date fixed for redemption (unless a shorter notice is acceptable to the Paying Agent).

If the Bonds are not registered in book-entry-only form, any redemption of less than all of the Outstanding Bonds will be allocated among the registered owners of such Bonds as nearly as practicable in proportion to the principal amounts of the Bonds owned by each registered owner, subject to the authorized denominations applicable to the Bonds. This will be calculated based on the formula: (principal amount of applicable maturity to be redeemed) x (principal amount of applicable maturity owned by owner) / (principal amount of applicable maturity outstanding). The particular Bonds to be redeemed will be determined by the Authority, using such method as it deems fair and appropriate.

Upon any partial redemption of any Bond the same shall, except as otherwise permitted by the Bond Resolution, be surrendered in exchange for a new bond of the same maturity and in authorized form for the unredeemed portion of principal. Bonds (or portions thereof as aforesaid) for whose redemption and payment provision is made in accordance with the Bond Resolution shall thereupon cease to be



entitled to the benefits of the Bond Resolution and shall cease to bear interest from and after the date fixed for redemption.

The Authority is a public corporation and instrumentality of the State organized under the provisions of Act No. 243 adopted at the 1965 First Special Session of the Legislature of Alabama; the Bonds are authorized to be issued pursuant to the provisions of the Authorizing Acts; and the Bonds are authorized to be issued for purposes for which bonds are authorized to be issued under the provisions of the Authorizing Acts and the Bond Resolution. The covenants and representations herein contained or contained in the Bond Resolution do not and shall never constitute a personal or pecuniary liability or charge against the general credit of the Authority, nor shall the State or any political subdivision thereof in any manner be liable for payment of the principal of or the interest on the Bonds or for the performance of the undertakings of the Authority contained herein or in the Bond Resolution.

The Bonds are issuable only as fully registered bonds without coupons in the denomination of \$100,000 or any principal amount in excess thereof. Provision is made in the Bond Resolution for the exchange of Bonds for a like aggregate principal amount of other bonds of the same maturity and in authorized denominations, all as may be requested by the holder surrendering the bond or bonds to be so exchanged and upon the terms and conditions specified in the Bond Resolution. This bond is transferable by the registered holder hereof in person, or by duly authorized attorney, only on the books of the State Treasurer of Alabama, as registrar for the Bonds, and only upon surrender of this bond to the State Treasurer for cancellation, and upon any such transfer a new fully registered bond of like tenor hereof will be issued to the transferee in exchange therefor, all as more particularly provided in the Bond Resolution. ANY ASSIGNEE OR TRANSFEREE OF THIS BOND TAKES IT SUBJECT TO ALL PAYMENTS OF PRINCIPAL AND INTEREST IN FACT MADE WITH RESPECT HERETO.

The Authority shall not be required to transfer or exchange any Bond (i) during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, (ii) so selected for redemption in whole or in part, or (iii) during a period beginning at the opening of business on any Record Date and ending at the close of business on the relevant Interest Payment Date therefor.

It is hereby certified that all conditions, actions and things required by the Constitution and laws of the State of Alabama to exist, be performed and happen precedent to or in the issuance of the Bonds do exist, have been performed and have happened in due and legal form.

Execution of the authentication certificate hereon is essential to the validity hereof and is conclusive of the due issue hereof under the Bond Resolution.

**IN WITNESS WHEREOF**, the Authority has caused this bond to be executed in its name and behalf with the signature of its President or its Vice President, has caused its corporate seal to be hereunto impressed and attested with the signature of its Secretary, and has caused this bond to be dated \_\_\_\_\_, 2010.

**ALABAMA PUBLIC SCHOOL  
AND COLLEGE AUTHORITY**

By: \_\_\_\_\_  
Its: \_\_\_\_\_

[SEAL]  
ATTEST:

\_\_\_\_\_  
Its Secretary

[Form of Authentication Certificate for the Bonds]

**AUTHENTICATION CERTIFICATE**

Date of Authentication: \_\_\_\_\_

This bond is one of the bonds authorized to be issued by ALABAMA PUBLIC SCHOOL AND COLLEGE AUTHORITY pursuant to the provisions of Act No. 98-373 and Act No. 2009-813 enacted by the Legislature of Alabama and a resolution duly adopted by the Board of Directors of said Authority on \_\_\_\_\_, 2010.

By: \_\_\_\_\_  
State Treasurer of Alabama or Authorized Delegate

[Form of Assignment for the Bonds]

The following abbreviations, when used in the inscription on the face of the within bond shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	-	as tenants in common
TEN ENT	-	as tenants by the entireties
JT TEN	-	as joint tenants with right of survivorship and not as tenants in common
UNIFORM GIFT MIN ACT	-	_____Custodian_____ (Adult) (Minor) Under Uniform Gifts to Minors Act _____ (State)

Additional abbreviations may also be used though not in the above list.

**ASSIGNMENT**

For value received, \_\_\_\_\_ hereby sell(s), assign(s) and transfer(s) unto \_\_\_\_\_ [Please insert name and taxpayer identification number] the within bond and hereby irrevocably constitute(s) and appoint(s) \_\_\_\_\_ attorney, with full power of substitution in the premises, to transfer such bond on the books kept for registration hereof.

Dated: \_\_\_\_\_

NOTE: The name signed to this assignment must correspond with the name of the payee written on the face of the within bond in all respects, without alteration, enlargement or change whatsoever.

Signature Guaranteed:

\_\_\_\_\_  
(Bank or Trust Company)

By \_\_\_\_\_  
(Authorized Officer)

Its Medallion No. \_\_\_\_\_

\*Signature(s) must be guaranteed by an eligible guarantor institution which is a member of the recognized signature guarantee program, i.e., Securities Transfer Agents Medallion Program (STAMP), Stock Exchanges Medallion Program (SEMP), or New York Stock Exchange Medallion Signature Program (MSP).

**EXHIBIT B**  
**Maturity and Interest Rate**

<b>Loan <u>Maturity Date</u></b>	<b>Principal Amount <u>Maturing</u></b>	<b>Interest <u>Rate</u></b>	<b>Origination <u>Fee (if any)</u></b>
_____	\$ _____	_____ %	\$ _____

## **EXHIBIT C**

### **Form of Bond Counsel Opinion**

August \_\_, 2010

Alabama Public School and College Authority  
Montgomery, Alabama

\$154,727,000  
Alabama Public School and College Authority  
2010 Capital Improvement Pool  
QSCB Direct Loan Bonds

Ladies and Gentlemen:

We have acted as bond counsel to Alabama Public School and College Authority (the "Authority") in connection with the issuance by the Authority of the above-captioned Bonds (the "Bonds"). We have examined certified copies of proceedings and other documents showing the organization of the Authority under the laws of Alabama, together with copies of proceedings of the Authority and other documents submitted to us pertaining to the issuance and validity of the Bonds. The statements hereinafter made and the opinions hereinafter expressed are based upon our examination of the aforesaid proceedings and documents. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation. Capitalized terms used but not defined herein shall have the meanings set forth in the resolution adopted by the Authority authorizing the issuance of the Bonds (the "Bond Resolution").

The documents submitted to us show as follows:

(a) The Authority is a public corporation organized under the laws of the State of Alabama, including particularly Act No. 243 enacted at the 1965 First Special Session of the Legislature of Alabama, codified as Chapter 16 of Title 16 of the Code of Alabama (1975), as amended.

(b) The Bonds are issued pursuant to the authorization contained in the Authorizing Acts.

(c) The State of Alabama (the "State") levies or imposes, among other taxes, the following:

(i) a utility gross receipts tax (herein called the "Utility Gross Receipts Tax") on the gross sales to, or the gross receipts from, each person to whom utility services are furnished by a person regularly engaged in furnishing utility services to the public in the State;

(ii) a utility service use tax (herein called the "Utility Service Use Tax") on the use in the State of utility services;

(iii) a sales tax (herein called the "Sales Tax") on retail sales of tangible personal property and admission fees to places of amusement in the State; and

(iv) a use tax (herein called the "Use Tax") on the use of tangible personal property brought into the State.

Those portions of the revenues from the Utility Gross Receipts Tax, the Utility Service Use Tax, the Sales Tax and the Use Tax that are required to be paid into the State Treasury of the State to the credit of the Alabama Education Trust Fund, and that remain after the appropriation of certain portions thereof for other purposes, constitute the revenues pledged and appropriated, to the extent needed for such purpose, for the payment of the principal of and the interest and premium (if any) on the Bonds and are herein called the "Pledged Revenues."

(d) To provide for payment of the principal of and interest on the Bonds (as well as other bonds of the Authority issued pursuant to authorization contained in the Authorizing Acts), there has, pursuant to the Authorizing Acts (as modified by subsequent legislation) been irrevocably pledged and appropriated, so much as may be necessary for that purpose of the following, in the following order:

(i) The Pledged Revenues from the Utility Gross Receipts Tax and the Utility Service Use Tax, after deducting therefrom amounts necessary to pay at their respective maturities the principal of and the interest on certain outstanding bonds that are secured by prior pledges thereof;

(ii) To the extent the Pledged Revenues described in the preceding subparagraph (i) are insufficient therefore, the Pledged Revenues from the Sales Tax, after deducting therefrom amounts necessary to pay at their respective maturities the principal of and the interest on certain outstanding bonds that are secured by prior pledges thereof; and

(iii) To the extent the Pledged Revenues described in the preceding subparagraphs (i) and (ii) are insufficient therefore, the Pledged Revenues from the Use Tax, after deducting therefrom amounts necessary to pay at their respective maturities the principal of and the interest on certain outstanding bonds that are secured by prior pledges thereof.

On the basis of the foregoing and subject to the assumptions, qualifications, limitations and exceptions stated herein, we are of the opinion that, under existing law:

1. The Authority has been duly organized as and is a validly existing public corporation pursuant to and under the laws of the State and has corporate power to sell and issue the Bonds, to adopt the Bond Resolution and to perform the agreements on its part contained therein.

2. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority payable solely from the sources provided therefor in the Bond Resolution and the Authorizing Acts.

3. The Bond Resolution has been duly adopted by the governing body of the Authority and constitutes a valid and binding obligation of the Authority.

4. Under the Bond Resolution and the Authorizing Acts, the payment of the principal of and the interest and premium (if any) on the Bonds is secured, pro rata one with the other by a valid pledge of the Pledged Revenues, which pledge is subject to certain prior pledges of the Pledged Revenues that secure the payment of certain other outstanding obligations of the Authority.

5. Interest on the Bonds is includible in the gross income of the owners of the Bonds for federal income tax purposes. We express no opinion regarding other federal tax consequences relating to the Bonds.

6. The interest income on the Bonds is exempt from State of Alabama income taxation. We express no opinion regarding other Alabama tax consequences relating to the Bonds.

Investors are urged to obtain independent tax advice regarding the Bonds based upon their particular circumstances. The tax opinions of Bond Counsel are not intended or written to be used, and cannot be used, for the purposes of avoiding federal taxpayer penalties. The advice provided in this opinion was written to support the promotion or marketing of the Bonds. This notice is intended to comply with the provisions of Section 10.35 of the United States Treasury publication Circular 230.

The opinions hereinabove expressed respecting the Bonds, the Bond Resolution and the pledge of the Pledged Revenues to secure the payment of the Bonds are subject to all applicable bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, sovereign immunity and other laws relating to or affecting creditors' rights (including specifically, but without limitation, the provisions of Chapter 9 of the United States Bankruptcy Code, as amended, relating to the adjustment of debts of political subdivisions and public agencies and instrumentalities of the several states), to the application of equitable principles, and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. We undertake no responsibility for the accuracy, completeness or fairness of any disclosure or offering materials relating to the Bonds and express no opinion with respect thereto.

This opinion is given as of the date hereof and we assume no obligation to or update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours very truly,